

**OFFICE OF THE TREASURER**

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# The Treasury Note

A monthly newsletter of California municipal finance  
April 1, 2002

## Strategic Debt Management Plan

The State has commenced implementation of a Strategic Debt Management Plan (Plan) to reduce the projected State budget deficit and protect services for education, health care, public safety, and other vital programs. The Plan also will free up borrowing capacity over the next ten years, allowing the State to fund critical infrastructure investments such as schools, parks, housing, and transportation.

The State of California's general obligation bond debt service was traditionally structured with level annual principal payments over the life of the bonds. This structure results in higher up-front payments that gradually decrease over the years. The Plan implements an alternative debt service structure that achieves level annual debt service payments over the life of the bonds. This structure, which results in lower debt service payments in the earlier years, is consistent with the practice of a vast majority of states.

Future general obligation bonds will be structured to achieve level annual debt service under the Plan. In addition, a portion of the State's existing debt portfolio will be converted to level debt service over time by refunding and restructuring selected bonds with scheduled principal payments over the next three years. Both new and refunding general obligation bonds issued over the next few years also will defer the first principal payment for four years to achieve budget relief and accelerate the transition to level debt service. The Plan will provide General Fund expenditure reductions of up to \$1.9

billion in the current year and next two fiscal years, if fully implemented.

The Plan also includes issuing variable rate general obligation bonds beginning in fiscal year 2002-03. The Plan assumes issuance of as much as \$1.5 billion in variable rate bonds by June 2004. State law limits the amount of variable rate bonds to 20 percent of the State's outstanding general obligation bonds. Projected debt service savings in comparison to traditional fixed rate bonds will be approximately \$8 million in fiscal year 2003-04 and \$26 million in fiscal year 2004-05.

The State began implementation of the Plan in February 2002 with the first new general obligation bond issue structured under the Plan. It continued in March 2002 with the sale of approximately \$1.1 billion of refunding bonds. The next phase of refunding bonds is anticipated to occur early in fiscal year 2003-04.

Overall, this prudent Strategic Debt Management Plan will help close the budget gap, better align the bond debt service costs associated with infrastructure projects with the useful life of those capital assets, and increase the long-term capacity to finance California's vital infrastructure needs. The Plan has been approved by all necessary general obligation bond finance committees and endorsed by the Governor. All three rating agencies have maintained and confirmed the State's current ratings.

## Bond Issues on the March 2002 Ballot

The following are results of the statewide bond measures that appeared on the March ballot.

**YES NO** **Proposition 40 – California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002** This measure allows the State to sell \$2.6 billion of general obligation bonds to conserve natural resources (land, air, and water), acquire and improve state and local parks, and preserve historical and cultural resources.



**YES NO** **Proposition 41 – Modernization Voting Act of 2002** This measure allows the State to sell \$200 million in general obligation bonds to update voting systems.



## Redemptions & Defeasances

There are no redemptions or defeasances officially announced as of April 1, 2002. Questions regarding redemptions or registration information can be directed to Investor Relations.

## Frequently Asked Questions

**Q:** How long do I have after my bond has matured to submit it for payment?

**A:** You have ten years from the maturity date of your bond to submit your bond for payment. However, all interest ceases to accrue on the maturity date. If you have any questions, please call the Bondholder Services Section at (800) 900-3873.

**Q:** I own a State of California General Obligation bond in book-entry form. My interest payments from this bond are sent to my current bank. How can I redirect my interest payments to a different bank?

**A:** Book-entry bond interest payments are sent to you by your broker. Your broker has established an account for you and handles the arrangements for your interest payments. To change where your payments are deposited, please contact your broker.

**For Information & Assistance  
call  
Investor Relations  
at  
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## Bond Sales Calendar <sup>1, 2</sup>

If you are interested in purchasing any of these bonds, please contact your broker two weeks before the sale date. For updated information, check our website ([www.treasurer.ca.gov](http://www.treasurer.ca.gov)) or call Investor Relations.

PROPOSED BOND SALE	AMOUNT	SALE DATE
Department of Water Resources Refunding Bonds	To Be Determined	To Be Determined
Veterans General Obligation Bonds	\$117 million	To Be Determined
California State University	\$175 million	April 11, 2002
General Obligation Bonds	\$800 million	April 17, 2002

<sup>1</sup> Subject to change

<sup>2</sup> Economic refundings may be added